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UNCLAS ANKARA 008369

SIPDIS

SENSITIVE

STATE FOR EUR/SE, EB/IFD/OMA AND E
TREASURY FOR OASIA - MILLS AND GUNARATNE
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SUBJECT: TURKISH MARKETS RALLY ON EU, CYPRUS NEWS

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Honeymoon Continues; Economic Data Also Strong

¶1. (U) The two-week market rallies continued strongly on the morning of November 18:

-- Treasury bill yields dropped 1.5 percentage points. With the benchmark July 2 bill now at 49.5 percent, in compounded terms, rates have dropped over 14 percentage points since the November 3 elections.

-- The stock market, up 4.5 percent in morning trading, has risen about 40 percent since the elections.

-- The lira appreciated about 1.5 percent since Friday, and is now trading at TL 1,580,000 to the dollar. This represents appreciation from one year ago even in nominal terms (not counting the approximately 35 percent inflation of the past 12 months.)

¶2. (U) Year-end growth data continues to support an optimist outlook. The Turkish Treasury officially revised its year-end 2002 projection upwards, from 3 to 4 percent GNP growth. Central Bank economist Ilker Domac says 4 percent remains a conservative figure; the Central Bank's internal projections have year-end growth at 4.4 percent. Treasury U/S Oztrak told us privately Treasury now projects 5 percent growth. Comment: The 2002 growth data has to be seen in light of last year's decline of 9.7 percent: this is a partial recovery. The tricky part now involves forecasting 2003 growth, and to do that we'll need to see the assumptions in the new government's budget. End Comment.

Markets React to Gul, Cyprus and EU News,
Less About the Economy

¶3. (SBU) Market analysts and participants tell us the markets are being driven by the AK party's "sensible positions on Cyprus, the EU and on relations with President Sezer," according to Bender Securities strategist Murat Gulkan. The selection of Abdullah Gul as PM was also welcome, since Gul is AK's best known figures to the financial markets. JP Morgan/Chase treasurer had a cautionary note, telling us, "it's about Cyprus and the EU, which means there's room for correction." Disbank Treasurer Bayazit concurred, adding that some Turkish banks are playing the risky, but traditional game of borrowing dollars and Euros to invest in lira instruments (especially T-bills.)

¶4. (SBU) There have been some foreign inflows to the local capital markets, though most of the buying continues to be local, per brokers. One broker told us that the Istanbul Stock Exchange's largest U.S. investor - Capital Assets Management - has been selling most of its holdings into this rally.

¶5. (SBU) Market participants also note that the new government's economic policies are still not clear. The "One-Year Action Plan" released by AK Chairman Erdogan November 16 had a mixed reception (see septel). For now, the markets are largely ignoring it, and focusing on the positive approach of the new Government to political issues.
PEARSON